

The background of the page is an abstract composition of large, overlapping geometric shapes in two shades of red and white. The shapes are angular and dynamic, creating a sense of movement and depth. The red is a vibrant, slightly dark shade, while the white is a clean, bright white. The overall effect is modern and minimalist.

**1990
Annual
Report**

Relax

Financial Highlights

(amounts in millions, except per share data)	1990	Change	1989	Change	1988	Change
Net sales	\$5,181.4	+ 11%	\$4,651.7	+ 7%	\$4,348.8	+ 15%
Net earnings	502.8	+ 7%	470.2	- 2%	480.4	+ 21%
Earnings per share	4.16	+ 8%	3.85	- 1%	3.90	+ 22%
Dividends per share	1.92	+ 12%	1.72	+ 13%	1.52	+ 18%
Cash provided by operations	819.2	+ 54%	533.5	+ 8%	492.3	- 6%
Capital expenditures	320.5	- 37%	508.7	- 5%	538.1	+ 12%
Return on average equity	28%		30%		36%	
Debt to total capital	26%		34%		32%	
Average shares outstanding	120.8		122.1		123.2	

Net earnings for 1989 include \$48.1 million (\$.39 per share) resulting from the adoption of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," as of January 1, 1989.

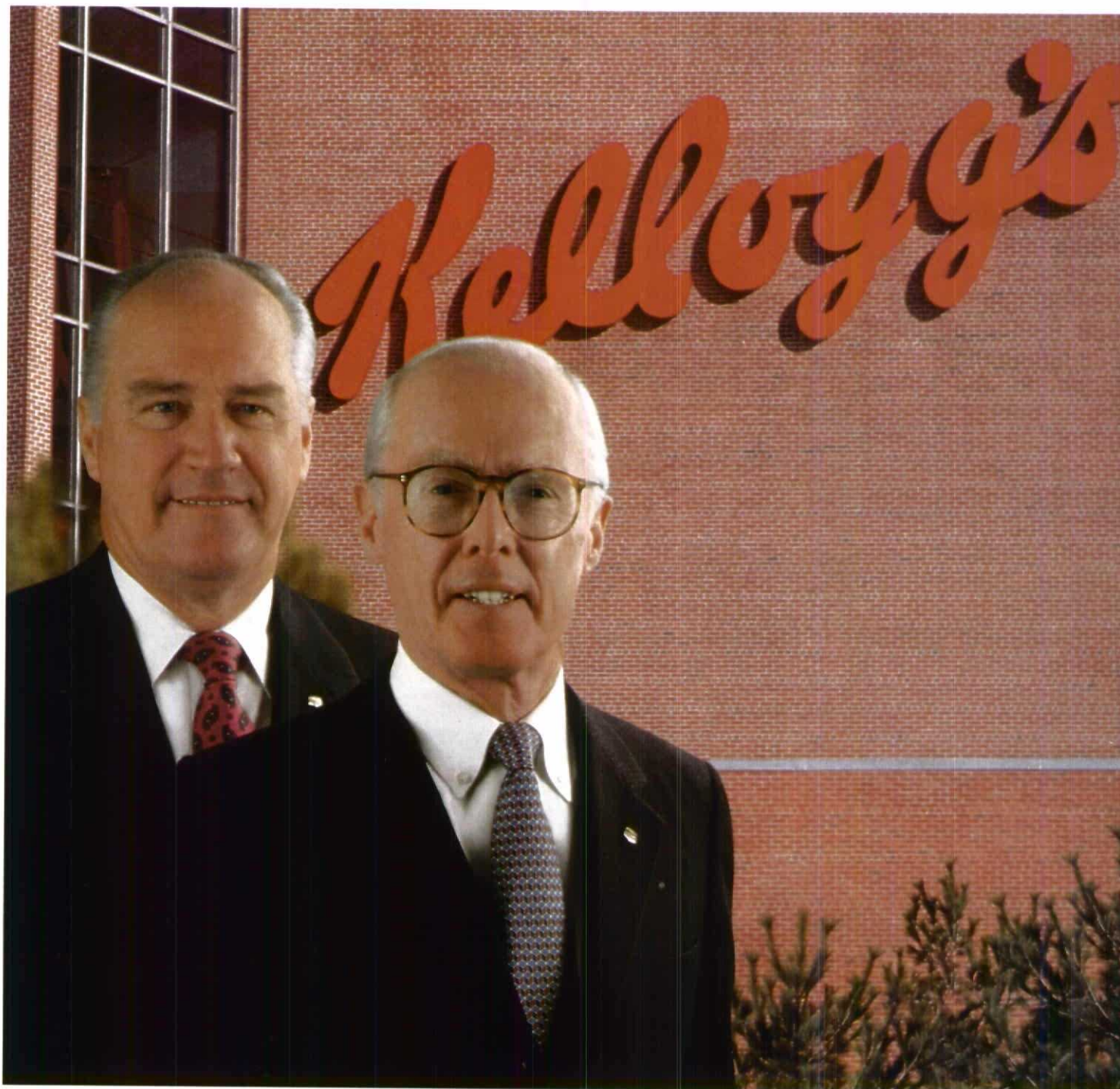
Annual Report 1990

Kellogg Company, headquartered in Battle Creek, Michigan, is the world's leading producer of ready-to-eat cereal products. The Company also manufactures frozen pies and waffles, toaster pastries, soups, soup bases, and other convenience foods.

Founded in 1906, Kellogg Company has a heritage of excellence and a reputation for products that contribute to a healthy diet. Kellogg products are manufactured in 16 countries and distributed in more than 130 countries.

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Above, from left: **Arnold G. Langbo**,
William E. LaMothe.

From left: **Charles W. Elliott**, executive vice president – administration and chief financial officer; **Gary E. Costley**, executive vice president and president, U.S. Food Products Division; **Donald W. Thomason**, executive vice president – corporate services and technology.

Continued growth in international ready-to-eat cereal volume led to record results in 1990 for Kellogg Company. Sales increased for the

tioned to drive the growth of Kellogg Company throughout the 1990s and into the next century. For decades, we have invested heavily to establish a

Other executive promotions during 1990 were Donald W. Thomason to executive vice president-corporate services and technology; Ian D. Sale to vice president-financial planning and analysis; Jay W. Shreiner to vice president-corporate information technology; and Holger U. Birkigt, John J. Feeney, Carlos M. Gutierrez, and Jeanene M. Mallmann to vice president.

Brian P. Burns resigned from the Board in February 1990 in light of his other business commitments. We extend special thanks and appreciation to Mr. Burns for his 10 years of distinguished service, which included chairmanship of the Finance and Audit Committees.

Again in 1990, Kellogg people around the world delivered an outstanding team performance, demonstrating that we have the talent and commitment to meet the challenges of the future. We look forward to an exciting decade of providing quality products for a healthier world.



William E. LaMothe
Chairman of the Board
Chief Executive Officer



Arnold G. Langbo
President
Chief Operating Officer

TO OUR SHAREHOLDERS

46th consecutive year and dividends were raised for the 34th consecutive year, with a per-share increase from \$1.72 to \$1.92. After decreasing in 1989 for the first time in 38 years, earnings again rose in 1990.

Although our sales volumes of ready-to-eat cereal in the United States declined during 1990, recent trends are encouraging. Significant progress has been made in addressing the challenges in our U.S. operations. We have raised standards for the performance of new products, advertising, and promotions; continued to right-size our workforce; and further refined our manufacturing and distribution systems to strengthen our leadership position in the extremely competitive U.S. market. We believe we have a solid, realistic business plan in place for 1991.

Our international business is posi-

manufacturing, sales, and marketing network that is producing exciting results. New opportunities to market ready-to-eat cereal products continue to open up around the world, and our Company is in an excellent position to pursue this additional business. In 1990, Kellogg International sales were up 25 percent and earnings up 39 percent, without the effect of a 1989 accounting change.

In December of 1990, Arnold G. Langbo, president of Kellogg International, was elected president and chief operating officer of Kellogg Company and to the Board of Directors. Also elected to the Board during 1990 were Claudio X. Gonzalez, chairman of the board and chief executive officer of Kimberly-Clark de Mexico, S.A. de C.V., and J. Richard Munro, chairman of the executive committee of Time Warner Inc.

Since its earliest years, Kellogg Company has consistently led the worldwide growth of the ready-to-eat cereal business. Never has that leadership provided more opportunity than in the 1990s, when huge new markets for consumer products are emerging around the world.

When Germany reunified during 1990, one of the first and most-desired new items to reach store shelves in the East was *Kellogg's Corn Flakes*®. In Eastern Europe and the Soviet Union, the breakfast habit is well-established and the demand for cereal is expected to be strong. We continue to carefully review the political and economic environments as we develop plans to take advantage of this opportunity. Kellogg already has the capacity at its plants in Bremen, Germany; Manchester, England; Wrexham, Wales; Svendborg, Denmark; and Valls, Spain, to aggressively enter and serve new markets in this region of the world.

Growth of the ready-to-eat cereal category is continuing in well-developed markets such as Great Britain and Ireland. Markets in France, Germany, Belgium, Spain, Italy, Switzerland, and Austria – which Kellogg has been nurturing for years – are experiencing double-digit growth. Potential also is very strong in less-developed markets such as Greece and Portugal.

Asia continues to provide substantial growth opportunities. Acceptance of ready-to-eat cereal products has strengthened in Japan and Korea, and growth is accelerating in such underdeveloped markets as Hong Kong, Indonesia, Malaysia, Pakistan, the Philippines, Singapore, Taiwan,

and Thailand. In the longer term, India and the People's Republic of China offer excellent potential.

DEDICATED TO LEADERSHIP AROUND THE WORLD

Throughout Latin America, an overall improvement in economic conditions is helping boost cereal consumption, with Mexico, Central America, and Colombia showing particular strength. Potential for further growth also continues in the well-developed markets of Canada and Australia, spurred by ever-increasing consumer interest in health and fitness.

In the United States, our largest and most competitive market, we expect modest growth of the ready-to-eat cereal category in 1991 and beyond. This growth, combined with our plans to consistently build upon our leadership position, can make the 1990s a period of steady improvement for our U.S. business.

Clearly, we have entered a decade of opportunity for Kellogg to further assert its leadership around the world.



In Paris, France, from left: **Holger U. Birkigt**, vice president and director, Continental European Operations; **Thomas A. Knowlton**, vice president and chairman/managing director, Kellogg Company of Great Britain, Ltd.; **Arnold G. Langbo**, president and chief operating officer and president, Kellogg International.



Kellogg Company's leadership in sales and marketing started with W.K. Kellogg, whose signature guaranteed "quality in everything" and "total consumer satisfaction." Today, as in 1906, those aren't just slogans, they're the cornerstones of a commitment from Kellogg people to the quality of every spoonful of Kellogg's® cereal consumed by anyone, anywhere in the world.

We moved decisively during 1990 to broaden our quality advantage. In the United States, better management of inventories, continued investment in research and development, improvements in distribution, a strengthening of trade relations, and implementation of an advanced lap-top sales analysis system underscored the Kellogg commitment to uncompromised freshness and customer service.

Kellogg's historic leadership in the use of recycled packaging material was enhanced in 1990 when we moved the "Carton Made From Recycled Paper" logo to the front panel of all our U.S. cereal cartons. The Council on Economic Priorities honored Kellogg in 1990 for its use of recycled packaging and other contributions to the environment. In early 1991, the CEP rated Kellogg one of the nation's four most socially responsible corporations.

New-product introductions during 1990 were Kellogg's® *Kenmei*™ Rice Bran, a whole grain, brown rice and rice bran cereal, available in a crispy flakes variety or with raisins and almonds, and Kellogg's® *Bigg Mixx*™, the first multi-grain flaked cereal marketed primarily to children. Kellogg

also announced the early-1991 introduction of Kellogg's® Cinnamon Mini Buns cereal.

DEDICATED TO LEADERSHIP IN SALES AND MARKETING

In its fast-growing international operations, the Company continues to successfully adapt proven products and marketing strategies to new markets. Examples in 1990 were a unified worldwide positioning of Kellogg's® *Frosted Flakes*® in our advertising, the introduction of Kellogg's® *Special K*® in Spain, and the introductions of Kellogg's® *Corn Flakes*® and Kellogg's® *Zucaritas*® (*Frosted Flakes*) in Chile, where the Company marketed its cereal products for the first time.

A very strong sales year throughout Europe was highlighted by the broad introduction of Kellogg's® *Honey-Nut Loops*™, a great-tasting toasted oat cereal. Our German sales team was expanded to take full advantage of the new opportunity resulting from reunification.

Around the world, in markets large or small, developed or emerging, this continued excellence in marketing and selling nutritious products will be a critical part of the Kellogg quality edge in the 1990s.



From left: **Gary E. Costley**, executive vice president and president, U.S. Food Products Division; **Scott W. Richards**, vice president/national sales manager, USFPD; **Carlos M. Gutierrez**, vice president and executive vice president, sales and marketing, USFPD; **J. Robert Aubuchon**, executive vice president, USFPD.



A world-class combination of outstanding people and excellent manufacturing technology enables Kellogg Company to produce both the quality and quantity of ready-to-eat cereal demanded by our leadership position and growth plans.

In the past decade, we have invested at record levels in advanced manufacturing systems and training for the Kellogg team members who manage and operate those systems.

In Battle Creek, Michigan, completion during 1990 of phase II of the Building 100 project was a key step in providing the capacity needed for the planned growth of Kellogg's U.S. cereal business.

Also in 1990, we expanded capacity at our cereal plants in Omaha, Nebraska, and Lancaster, Pennsylvania; installed a new flavoring system at the San Leandro, California, plant; and upgraded quality systems in Omaha and San Leandro.

The slower growth of the U.S. cereal business led the Company to cancel plans for a new manufacturing facility in Memphis, Tennessee. Instead, a significant multi-year modernization of our existing Memphis plant will begin in 1991.

The partnership of all Kellogg U.S. manufacturing employees was strengthened in 1990 by the reorganization of our plant management system and by increased involvement of production workers in quality control task forces and other decision-making roles. Plans for further enhancement of employee involvement and decision-making opportunities are being initiated in 1991.

Major expansion projects outside the United States in the 1980s prepared

Kellogg for the strong growth being experienced in many international markets. In anticipation of further

DEDICATED TO LEADERSHIP IN MANUFACTURING

growth, the Company is continuing to invest heavily in its production facilities around the world.

In Europe, capacity was added in 1990 at our plants in Manchester, England, and Bremen, Germany, and capital expansion is set for 1991 at the Manchester, Bremen, and Wrexham, Wales, plants. Also during 1990, Kellogg Great Britain opened a new headquarters facility in Manchester.

In Latin America, we doubled the capacity of our Bogota, Colombia, plant and also added capacity, broadened the new-product capability, and improved the quality systems at our plants in Queretaro, Mexico; Guatemala City, Guatemala; Maracay, Venezuela; and Sao Paulo, Brazil. Quality assurance training programs were conducted throughout our Latin American operations.

Capacity increases were completed at Kellogg's major plants in London, Ontario, Canada, and Sydney, Australia.

As with our marketing and sales programs, the central goal of our manufacturing and technology efforts is to achieve total consumer satisfaction.



At the Lancaster, Pennsylvania, ready-to-eat cereal plant, clockwise from front center: **Donald W. Thomason**, executive vice president – corporate services and technology; **Michael J. Teale**, vice president and executive vice president – operations, U.S. Food Products Division; **Jaime Luciano**, line operator; **Janet Simms**, packaging supervisor; **Steve Minnich**, line operator; **Steve C. Harvey**, general plant manager; **Bob A. Baskin**, vice president – manufacturing, USFPD; **Carol Rupp**, line operator.



Although more than 80 percent of Kellogg's worldwide sales come from ready-to-eat cereal, the Company has strong leadership positions in other convenience foods, most prominently in the United States.

Mrs. Smith's Frozen Foods Co., a Kellogg subsidiary, is the quality and market share leader in the frozen waffle and frozen pie categories. Clear-cut quality leadership has earned *Eggo** waffles a major share of the growing frozen waffle category. In 1990, two new varieties, Nut and Honey and *Nutri-Grain** Multi-Bran waffles, contributed to *Eggo** waffles' continued growth. *Mrs. Smith's** pies also had a year of growth, helped by a very good pumpkin pie season and by the contributions of two new varieties, Bake 'n Serve Apple Cranberry pie and Chocolate Meringue Ready-to-Serve Dessert.

During 1990, Mrs. Smith's upgraded and expanded waffle production and warehouse capacity at its Rossville, Tennessee, plant and completed structural and capacity improvements at its plants in Blue Anchor, New Jersey, and Pottstown, Pennsylvania.

Because consumers recognize that *Kellogg's** *Pop-Tarts** simply taste better than other toaster pastries, *Pop-Tarts** remains the strong leader of this growing category. A tasty new Milk Chocolate variety, introduced in 1990, contributed to another excellent year for *Pop-Tarts**.

Joining *Pop-Tarts** on U.S. shelves in 1991 are *Kellogg's** *Nutri-Grain** Cereal Bars, which combine nutrition, great taste, and the convenience of portability. *Nutri-Grain** Cereal Bars are available in four fruit-filled varieties. A major warehouse expansion com-

pleted in 1990 at the Muncy, Pennsylvania, convenience foods plant is supporting the distribution of *Pop-*

DEDICATED TO LEADERSHIP IN CONVENIENCE FOODS

*Tarts** and *Nutri-Grain** Cereal Bars.

Less known to consumers, but widely respected for their quality leadership in the foodservice industry, are the *LeGout** lines of soups, soup bases, and other products manufactured by Fearn International Inc., also a Kellogg subsidiary. Fearn invested substantially in 1990 to assure the continued growth of its business. Its frozen soup line is now marketed in *Souperbly Sealed**™ bags, providing new flexibility in packaging and even higher quality assurance. Fearn also improved its processing and packaging lines for non-frozen soups and bases at its plant in Franklin Park, Illinois, and completed a new distribution center in Edgington, Illinois.

The Kellogg Foodservice Division, headquartered in Franklin Park, coordinates the nationwide marketing of *Kellogg's**, *Mrs. Smith's**, *Eggo**, and *LeGout** products to restaurants, institutions, and government outlets.

The active lifestyles of American consumers and continued quality leadership by Kellogg Company promise to make the 1990s a decade of strong growth in convenience foods.



At the Blue Anchor, New Jersey, plant of Mrs. Smith's Frozen Foods Co., from left: **Judith Friede**, senior marketing manager – frozen breakfasts, Mrs. Smith's; **John J. Feeney**, chairman of the board and chief executive officer, Mrs. Smith's; **Martha Wood**, packaging line operator; **Earl Wagner**, plant manager; **Carmela Fierro**, packaging line operator.



Kellogg Company's historic commitment to nutrition grew from the belief of W.K. Kellogg and his brother, Dr. John Harvey Kellogg, in the healthy-lifestyle value of grain-based foods. This commitment has been sustained consistently over the decades through research, product development, and a broad program of nutrition communication.

Kellogg has been a pacesetter in its industry in areas such as product fortification, food labeling, and nutrition education. The Company also has developed landmark products such as *Kellogg's® All-Bran®*, introduced in 1916 and still the "gold standard" of high-fiber cereals; high-protein *Kellogg's® Special K®* cereal (1955); *Kellogg's® Product 19®* multivitamin and iron supplement cereal (1966); *Nutri-Grain®* (1981), the first line of flaked, whole-grain cereal with no sugar or preservatives added; and *Kellogg's® Genmai Flakes*, a nutritious rice bran cereal introduced in the Orient in the 1980s and forerunner of *Kellogg's® Kenmei™* Rice Bran cereal, now manufactured and marketed in the United States. Continuing our leadership tradition, in 1989 we introduced *Kellogg's® Heartwise™*, an innovative new cereal made with psyllium. We believe that psyllium-based cereal has important potential in helping to increase soluble fiber in the diet.

In the 1980s, in an effort to expand our leadership role in nutrition education, we developed partnerships with several major research and medical organizations.

Starting in 1984, Kellogg teamed with the National Cancer Institute in an award-winning campaign to communicate to consumers that a high-fiber, low-fat diet may reduce the risk of some kinds of cancer.

In 1988, the Company launched Project Nutrition, a consumer education program which focuses primarily

DEDICATED TO LEADERSHIP IN NUTRITION

on the role of diet in a healthy lifestyle. Project Nutrition initiatives have included cooperation with the American Medical Association and Dr. Art Ulene in a program to encourage each person to know his or her cholesterol level, and sponsorship with the American Health Foundation of "Kids For Healthy Hearts," a program in which 10 youths from Jackson, Mississippi, traveled around the nation communicating to their peers the importance of nutrition and fitness.

In 1990, Kellogg campaigned for nationwide uniformity and completeness in food labeling. We sponsored research at leading universities that provided strong evidence of the role of grains in a high-soluble-fiber, low-fat diet which can lower elevated cholesterol. In 1991, in partnership with the American Diabetes Association and as a service to people with diabetes, Kellogg is adding exchange values to all its U.S. cereal and frozen waffle labels.

Eighty-four years and 130 worldwide markets after W.K. Kellogg began producing and marketing *Kellogg's Corn Flakes®* in 1906, we continue to be inspired by Mr. Kellogg's belief in Kellogg people and Kellogg products. As we approach the 21st Century, we reaffirm pride in our global leadership as "a company of dedicated people providing quality products for a healthier world."



In Kellogg's sensory kitchen, from left:
Dr. Daryl R. Schaller, senior vice president – research, quality, and nutrition;
Dr. Victor L. Fulgoni III, vice president – research and nutrition; **Celeste A. Clark**, vice president – nutrition marketing and communications.



Eleven-Year Summary

(dollar amounts in millions, except per share data)

Summary of Operations

	Net Sales	% Growth	Pretax Earnings	% Growth	Net Earnings	% Growth
10-year Compound Growth Rate	9%		9%		11%	
1990	\$5,181.4	11	\$814.7	22	\$502.8	7
1989	4,651.7	7	667.0	(14)	470.2	(2)
1988	4,348.8	15	774.7	16	480.4	21
1987	3,793.0	14	665.7	13	395.9	24
1986	3,340.7	14	586.6	11	318.9	13
1985	2,930.1	13	527.4	11	281.1	12
1984	2,602.4	9	476.1	7	250.5	3
1983	2,381.1	1	444.0	8	242.7	7
1982	2,367.1	2	410.9	9	227.8	11
1981	2,321.3	8	378.6	12	205.4	12
1980	2,150.9	16	338.3	20	184.0	14

Other Information and Financial Ratios

	Property, Net	Capital Expenditures	Depreciation	Total Assets	Number of Employees
1990	\$2,595.4	\$320.5	\$200.2	\$3,749.4	17,239
1989	2,406.3	508.7	167.6	3,390.4	17,268
1988	2,131.9	538.1	139.7	3,297.9	17,461
1987	1,738.8	478.4	113.1	2,680.9	17,762
1986	1,281.1	329.2	92.7	2,084.2	17,383
1985	1,035.9	245.6	75.4	1,726.1	17,082
1984	856.0	228.9	63.9	1,667.1	17,239
1983	743.2	156.7	62.8	1,467.2	18,293
1982	682.2	121.1	55.9	1,297.4	19,290
1981	658.4	146.4	49.1	1,279.1	20,260
1980	582.2	122.9	44.7	1,181.9	21,285

Net earnings for 1989 include \$48.1 million (\$.39 per share) resulting from the adoption of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," as of January 1, 1989.



Per Common Share Data			Average Shares (millions) Outstanding	Shareholders' Equity
Net Earnings	Cash Dividends	Book Value		
13%	11%			
\$4.16	\$1.92	\$15.76	120.8	\$1,901.8
3.85	1.72	13.41	122.1	1,634.4
3.90	1.52	12.07	123.2	1,483.2
3.20	1.29	9.82	123.7	1,211.4
2.58	1.02	7.27	123.5	898.4
2.28	.90	5.54	123.3	683.0
1.68	.85	3.96	149.4	487.2
1.59	.81	6.39	152.9	977.9
1.49	.76	5.79	152.9	884.7
1.34	.71	5.30	152.9	810.3
1.20	.67	4.81	152.9	735.8

Financial Ratios					
Current Ratio	Pretax Interest Coverage (times)	Return on Average Equity	Debt to Total Capital	Cash Provided By Operations	Long-term Debt
.9	11	28%	26%	\$819.2	\$295.6
.9	10	30%	34%	533.5	371.4
.9	13	36%	32%	492.3	272.1
.9	14	38%	27%	523.5	290.4
1.1	13	40%	31%	542.7	264.1
1.4	11	48%	38%	449.7	392.6
1.1	26	27%	59%	331.5	364.1
1.8	64	26%	4%	347.1	18.6
1.8	51	27%	2%	341.7	11.8
1.9	33	27%	11%	293.3	88.2
2.0	34	26%	12%	249.3	82.7



Financial Review

Operations

Strong results in our international operations led to record sales and earnings during 1990. Earnings reached \$503 million, up 19 percent from 1989 (before the effect of an accounting change). This followed a 12 percent decline in 1989 (before the effect of an accounting change), the first decline in 37 years. In 1988, earnings rose by 21 percent.

Sales totaled \$5.2 billion in 1990, up 11 percent, marking the 46th consecutive year of increased sales. A strong 8 percent increase in international cereal volume more than offset a 4 percent decline in cereal volume in the United States. Higher selling prices worldwide contributed to the sales increase. International results were aided by favorable currency exchange rates in Europe.

Geographic operating segments – covered by Report of Independent Accountants

Net sales (millions)	1990	Percent Change	1989	Percent Change	1988	Percent Change
United States	\$3,043.8	+ 4	\$2,940.5	+ 6	\$2,766.4	+11
% of total	59%		63%		64%	
Europe	1,321.5	+32	999.4	+ 4	957.4	+20
% of total	26%		21%		22%	
Other areas	816.1	+15	711.8	+14	625.0	+25
% of total	15%		16%		14%	
Consolidated	\$5,181.4	+11	\$4,651.7	+ 7	\$4,348.8	+15
Net earnings (millions)	1990	Percent Change	1989	Percent Change	1988	Percent Change
United States	\$325.4	+ 4	\$312.6	-11	\$349.5	+15
% of total	65%		66%		73%	
Europe	108.1	+12	96.6	+11	87.2	+24
% of total	21%		21%		18%	
Other areas	69.3	+14	61.0	+40	43.7	+97
% of total	14%		13%		9%	
Consolidated	\$502.8	+ 7	\$470.2	- 2	\$480.4	+21
Identifiable assets (millions)	1990	Percent Change	1989	Percent Change	1988	Percent Change
United States	\$1,835.3	+ 4	\$1,770.9	+ 8	\$1,641.4	+26
% of total	49%		52%		50%	
Europe	1,096.8	+25	879.0	+ 5	840.9	+20
% of total	29%		26%		25%	
Other areas	707.9	+ 9	652.2	+ 5	624.0	+13
% of total	19%		19%		19%	
Corporate assets	109.4	+24	88.3	-54	191.6	+46
% of total	3%		3%		6%	
Consolidated	\$3,749.4	+11	\$3,390.4	+ 3	\$3,297.9	+23

The United States ready-to-eat cereal business experienced minimal category growth in 1990. Intense competition and fewer new products led to a decline in our market share. Management is committed to meeting the challenges of the United States market and is very optimistic about the growth prospects of worldwide cereal products.

Worldwide noncereal sales increased 2 percent in 1990 due to the strong volume growth of toaster pastries and frozen waffles in the United States. These gains were nearly offset by volume lost due to the disposition of certain domestic noncereal operations in 1989 and a volume decline in international noncereal products.

In 1989, sales grew 7 percent as worldwide cereal volume increased 2 percent. Higher international cereal volume more than offset a 4 percent volume decline in the domestic cereal market. Noncereal volume grew worldwide and higher selling prices also contributed to the sales increase. A 15 percent increase in sales occurred in 1988.

Sales in Europe surged ahead 32 percent in 1990, due primarily to a 9 percent cereal volume increase, higher prices, and the translation of results at more favorable currency exchange rates. In 1989, a 4 percent rise in European sales occurred due to increases in prices and cereal volume, partially offset by unfavorable currency exchange rates. Sales in other geographic areas increased 15 percent in 1990 on the strength of a 7 percent rise in cereal volume. In 1989, higher volume and prices resulted in a 14 percent increase in sales.

Cost of goods sold as a percentage of sales was 52 percent in both 1990 and 1989. This ratio has been very steady for the past several years. Higher raw material costs and increased fixed cost per unit produced (due to the volume decline in domestic cereal sales and reduced finished goods inventory levels) have been offset by timely price increases and worldwide productivity gains in factory operations.

Selling and administrative expense eased to just over 31 percent of each sales dollar, compared to 32 percent in 1989. The decline resulted from the Company's effort to contain overhead costs and a more conservative approach to new-product introductions in the domestic cereal market. Selling and administrative expense is expected to remain fairly constant as the worldwide cereal market is likely to remain extremely competitive in the future.

Sale of the Company's North American tea business resulted in a pretax gain in other income for 1988. The gain had an immaterial effect on net earnings.

The deferred income tax liability was reduced \$48 million when the Company adopted Financial Accounting Standards Board Statement No. 96, "Accounting For Income Taxes," effective January 1, 1989. This adjustment favorably affected 1989 net earnings by \$22 million in the United States, \$14 million in Europe, and \$12 million in other geographic areas.

In the United States, net earnings rose 4 percent in 1990. The increase was primarily due to higher technical service fees charged to some international operating units, offset by reduced cereal volume, lower capitalized interest, and the FAS 96 tax adjustment recorded in 1989. The technical service fee increase, which generally took effect at the start of 1990, caused domestic net earnings to rise by \$13 million with the expense recorded in Europe (\$6 million) and other geographic areas (\$7 million). Net earnings fell 11 percent in the United States during 1989 due to the decline in cereal volume, the charge associated with the termination and disposition of certain operations and related assets, and staff reductions, offset somewhat by the effect of the FAS 96 tax adjustment. In 1988, net earnings rose 15 percent for domestic operations primarily due to higher volume and prices, and a decrease in the statutory income tax rate.

European net earnings increased by 12 percent due to the rise in cereal volume, higher prices, the translation of results at favorable exchange rates, and improved profit margins. For 1989, higher cereal volume, improved profit margins, and a favorable FAS 96 tax adjustment, partially offset by increased marketing expenses and the translation of results at lower exchange rates, contributed to an 11 percent rise in net earnings. Strong sales gains and improved profit margins caused a 24 percent increase in net earnings for 1988.

In other geographic areas, net earnings for 1990 rose 14 percent as a result of increased cereal volume and improved profit margins. Net earnings rose 40 percent in 1989 on the strength of a 7 percent rise in cereal volume and a favorable FAS 96 tax adjustment, offset somewhat by price restrictions in certain highly inflationary economies. Net earnings nearly doubled in 1988 due to higher sales volume and prices, improved margins, and favorable currency exchange rates.

Quarterly earnings were negatively affected in 1990 and 1989 by one-time charges. Other deductions include a charge of \$15 million (\$.08 per share) recorded in the fourth quarter of 1990 for the writeoff of preliminary engineering and site preparation costs associated with a cancelled new cereal plant in the United States. Because of the decline in domestic cereal volume for the past two years, management has determined the construction of this new facility is not

required. In 1989, a one-time pretax charge of \$15 million (\$.08 per share) was recorded in the third quarter related to the disposition of certain operations. Fourth quarter pretax earnings for 1989 included a charge of \$10 million (\$.06 per share) due to staff reductions and the disposal of certain operations and assets, split equally between selling and administrative expense and other deductions. A 13 percent decline in United States cereal volume and lower operating margins due to reduced factory output also contributed to the fourth quarter decline in net earnings for 1989.

In December 1990, the Financial Accounting Standards Board issued FAS 106 – "Employers' Accounting for Post-retirement Benefits Other Than Pensions." FAS 106 must be implemented by 1993. This complex accounting standard requires that the estimated cost of these benefits (principally health and life insurance for all domestic employees) be accrued over the period earned rather than expensed as incurred. Management is in the process of determining the impact of this new accounting standard and how it will be implemented.

Quarterly operating results

(millions)	Net sales		Gross profit	
	1990	1989	1990	1989
First	\$1,208.8	\$1,134.1	\$ 584.8	\$ 553.3
Second	1,257.6	1,234.0	603.5	627.8
Third	1,351.6	1,195.4	672.7	583.6
Fourth	1,363.4	1,088.2	643.8	473.2
	\$5,181.4	\$4,651.7	\$2,504.8	\$2,237.9

(millions, except per share data)	Earnings before accounting change		Earnings per share before accounting change	
	1990	1989	1990	1989
First	\$ 96.3	\$111.4	\$.79	\$.91
Second	135.7	129.7	1.13	1.06
Third	162.3	123.1	1.34	1.02
Fourth	108.5	57.9	.90	.47
	\$502.8	\$422.1	\$4.16	\$3.46

(millions, except per share data)	Net earnings		Earnings per share	
	1990	1989	1990	1989
First	\$ 96.3	\$159.5	\$.79	\$1.30
Second	135.7	129.7	1.13	1.06
Third	162.3	123.1	1.34	1.02
Fourth	108.5	57.9	.90	.47
	\$502.8	\$470.2	\$4.16	\$3.85

Liquidity and capital resources

The financial condition of the Company remained strong during 1990. Cash flow from operations, along with a program of issuing commercial paper and maintaining world-wide credit facilities, has provided adequate liquidity for Company operations.

Cash provided by operating activities amounted to \$819 million in 1990 compared to \$533 million in 1989 and \$492 million in 1988. The increase in 1990 occurred principally from higher earnings (when compared to 1989 earnings before the effect of FAS 96) and reduced working capital requirements. Management is committed to long-term earnings growth as demonstrated by significant cash outlays over the past several years for capital expenditures, dividends, and treasury stock purchases.

Funds expended for capital improvements declined for the second straight year. A total of \$320 million was spent in 1990, compared to \$509 million in 1989 and \$538 million in 1988. Management has cancelled the plan to construct a new cereal plant in the United States due to continued weakness in cereal volume sales, its ability to increase capacity at existing production facilities, and the utilization of Canada's capacity to meet domestic market needs. Capital expenditures are expected to increase moderately in 1991 as the Company continues to invest in modernization and expansion of facilities, especially in international markets. The capital program remains focused on the goal of producing the highest quality product at the lowest possible cost.

Accounts Receivable increased at December 31, 1990 due to higher selling prices and a return of sales volume to historical levels in the fourth quarter.

Total borrowings decreased \$171 million during 1990 to \$678 million at year end. The decline is attributed to increased earnings and a reduction in capital spending. Total debt as a percentage of total capitalization was 26 percent in 1990, compared to 34 percent in 1989. Debt ratings on both commercial paper and long-term debt remained the highest grade assigned by rating agencies.

In 1990, the use of short-term debt continued as the Company took advantage of declining interest rates in certain financial markets around the world. At December 31, 1990, debt due within one year represented 56 percent of total debt. Interest expense rose \$18 million in 1990 due to higher debt levels early in the year and a reduction in the amount of interest capitalized.

In January 1990, the Company redeemed its \$100 million 11¼ percent Eurodollar notes due in 1992 after calling them in November 1989. In 1989, these notes were included in current maturities of long-term debt.

In March 1989, the Company issued \$200 million 9½ percent Eurodollar notes due in 1992 for general corporate purposes.

The Company has a \$190 million "shelf registration" on file with the Securities and Exchange Commission to provide for the issuance of debt in the United States. Early in 1991, the Company filed a request to increase the shelf registration to \$300 million in securities. In addition, the Company maintains credit facilities with banking institutions in countries where it conducts business. At year end, \$519 million of short-term credit lines existed, of which \$443 million was available. Should suitable investment opportunities arise that would require additional financing, management believes the Company's strong balance sheet and history of earnings provide a solid base for obtaining additional financial resources at competitive rates and terms.

Dividends per common share rose 12 percent, marking the 34th consecutive year of increased dividends to shareholders. Total dividend payments were \$232 million in 1990, compared to \$210 million in 1989.

During the year ended December 31, 1990, the Company purchased 1,383,100 shares of its common stock at an average cost of \$63 per share. In 1989, a total of 1,232,100 shares were purchased at an average cost of \$64 per share. Treasury stock purchases were made under plans authorized by the Company's Board of Directors. At December 31, 1990, an additional \$98 million of stock could be purchased through April 1991 under current Board authorization.

Management is not aware of any adverse trends that would materially affect the Company's strong financial position or the ability to provide adequate financial resources for maintenance and expansion of the business.

Dividends and common stock

Dividend payments for the year totaled \$1.92 a share, up 12 percent from 1989. In February 1991, the dividend rate was raised 10 percent to a stated annual rate of \$2.12.

The principal market for trading Kellogg shares is the New York Stock Exchange. The shares also are traded on the Boston, Cincinnati, Midwest, Pacific, and Philadelphia Stock Exchanges. The closing price (on the NYSE) on December 31, 1990 was \$75⅞. Dividends paid and the quarterly price ranges on the New York Stock Exchange during the last two years are as follows.

1990	Dividend	High	Low
4th Quarter	\$.48	\$77½	\$62⅞
3rd Quarter	.48	71	60¾
2nd Quarter	.48	73	61
1st Quarter	.48	69	58¾
	\$1.92		
1989			
4th Quarter	\$.43	\$75	\$65
3rd Quarter	.43	81⅞	69¾
2nd Quarter	.43	74⅞	62⅞
1st Quarter	.43	66⅞	57¾
	\$1.72		

Consolidated Earnings and Retained Earnings

Year ended December 31,

(millions)	1990	1989	1988
Net sales	\$5,181.4	\$4,651.7	\$4,348.8
Interest revenue	17.8	14.5	13.8
Other revenue (deductions), net	(22.9)	(31.7)	5.6
	5,176.3	4,634.5	4,368.2
Cost of goods sold	2,676.6	2,413.8	2,233.4
Selling and administrative expense	1,618.8	1,505.4	1,321.3
Interest expense	66.2	48.3	38.8
	4,361.6	3,967.5	3,593.5
Earnings before income taxes and cumulative effect of accounting change	814.7	667.0	774.7
Income taxes	311.9	244.9	294.3
Earnings before cumulative effect of accounting change	502.8	422.1	480.4
Cumulative effect of change in method of accounting for income taxes — \$.39 a share		48.1	
Net earnings — \$4.16, \$3.85, \$3.90 a share	502.8	470.2	480.4
Retained earnings, beginning of year	2,271.4	2,011.1	1,717.9
Dividends paid — \$1.92, \$1.72, \$1.52 a share	(231.8)	(209.9)	(187.2)
Retained earnings, end of year	\$2,542.4	\$2,271.4	\$2,011.1

See notes to financial statements.

Consolidated Balance Sheet

At December 31,

(millions)	1990	1989
Current assets		
Cash and temporary investments	\$ 100.5	\$ 80.3
Accounts receivable, less allowances of \$4.8 and \$3.1	430.2	355.2
Inventories:		
Raw materials and supplies	174.8	182.1
Finished goods and materials in process	184.9	211.9
Prepaid expenses	151.0	76.6
Total current assets	1,041.4	906.1
Property		
Land	41.0	42.0
Buildings	1,026.9	859.5
Machinery and equipment	2,462.8	1,957.5
Construction in progress	141.3	443.4
Accumulated depreciation	(1,076.6)	(896.1)
Property, net	2,595.4	2,406.3
Intangible assets	62.9	34.9
Other assets	49.7	43.1
Total assets	\$3,749.4	\$3,390.4
Current liabilities		
Current maturities of long-term debt	\$ 102.3	\$ 102.1
Notes payable	280.3	376.1
Accounts payable	247.1	250.9
Accrued liabilities:		
Income taxes	103.7	2.1
Salaries and wages	73.2	68.7
Promotion	153.7	133.9
Interest	27.0	38.2
Other	122.3	65.2
Total current liabilities	1,109.6	1,037.2
Long-term debt	295.6	371.4
Other liabilities	95.4	58.6
Deferred income taxes	347.0	288.8
Shareholders' equity		
Common stock, \$.25 par value — shares authorized 165,000,000; issued 154,501,434 and 154,336,742	38.6	38.6
Capital in excess of par value	81.2	72.8
Retained earnings	2,542.4	2,271.4
Treasury stock, at cost — 33,843,183 and 32,461,183 shares	(797.3)	(710.4)
Currency translation adjustment	36.9	(38.0)
Total shareholders' equity	1,901.8	1,634.4
Total liabilities and shareholders' equity	\$3,749.4	\$3,390.4

See notes to financial statements.

Consolidated Statement of Cash Flows

Year ended December 31,

(millions)	1990	1989	1988
Operating activities			
Net earnings	\$ 502.8	\$ 470.2	\$ 480.4
Items in net earnings not requiring (providing) cash:			
Depreciation	200.2	167.6	139.7
Cumulative effect of change in method of accounting for income taxes		(48.1)	
Deferred income taxes	45.6	32.0	34.8
Other	17.7	25.1	(1.4)
Change in operating assets and liabilities:			
Accounts receivable	(75.0)	49.4	(129.5)
Inventories	34.3	(31.8)	(51.3)
Prepaid expenses	(74.4)	34.8	(21.7)
Accounts payable	(3.8)	(114.4)	53.4
Accrued liabilities	171.8	(51.3)	(12.1)
Cash provided by operations	819.2	533.5	492.3
Investing activities			
Additions to properties	(320.5)	(508.7)	(538.1)
Property disposals	18.0	15.0	45.6
Other	(7.9)	(1.5)	5.0
Cash used by investing activities	(310.4)	(495.2)	(487.5)
Financing activities			
Borrowings of notes payable	367.8	268.9	240.4
Reduction of notes payable	(463.7)	(199.9)	(60.7)
Issuance of long-term debt	24.2	202.5	111.1
Reduction in long-term debt	(102.4)	(135.2)	(23.5)
Issuance of common stock	8.4	9.5	5.2
Purchase of treasury stock	(86.9)	(78.6)	(33.6)
Cash dividends	(231.8)	(209.9)	(187.2)
Other	(6.5)	(.5)	.4
Cash (used) provided by financing activities	(490.9)	(143.2)	52.1
Effect of exchange rate changes on cash	2.3	.2	1.9
Increase (decrease) in cash and temporary investments	20.2	(104.7)	58.8
Cash and temporary investments at beginning of year	80.3	185.0	126.2
Cash and temporary investments at end of year	\$ 100.5	\$ 80.3	\$ 185.0

See notes to financial statements.

Notes to Financial Statements

Note 1 Accounting policies

Consolidation

The consolidated financial statements include the accounts of Kellogg Company and its wholly-owned subsidiaries. Intercompany balances and transactions are eliminated.

Cash and temporary investments

Temporary investments that are highly liquid with original maturities of less than three months are considered to be cash equivalents.

Inventories

Inventories include raw materials, labor, and manufacturing expenses and are valued at the lower of cost (principally average) or market.

Property

Fixed assets are recorded at cost and depreciated over estimated useful lives using straight-line methods for financial reporting and accelerated methods for tax reporting. Interest cost capitalized as part of the construction cost of capital assets amounted to \$18.3 million in 1990, \$24.3 million in 1989, and \$21.6 million in 1988.

Intangible assets

Intangible assets represent the unamortized excess of cost over fair market value of net assets of businesses acquired by purchase (goodwill), trademarks, and the underfunded amount of certain pension plans. Trademarks and goodwill are being amortized by the straight-line method over periods up to 40 years.

Net earnings per share

Net earnings per share is determined by dividing net earnings by the weighted average number of common shares outstanding.

Note 2 Leases

Operating leases generally are for equipment and warehouse space. Rent expense on all operating leases, which generally are renewable at the Company's option, amounted to \$39.8 million in 1990, \$38.7 million in 1989, and \$43.4 million in 1988. Future minimum rental commitments under noncancelable leases are not material.

Note 3 Research and development

Research and development costs charged to earnings approximated \$38.3 million in 1990, \$42.9 million in 1989, and \$42.0 million in 1988.

Note 4 Foreign currency translations

Most effects of exchange rate changes are reflected as a currency translation adjustment in shareholders' equity.

Exchange adjustments attributable to operations in highly inflationary economies are reflected in earnings along with the exchange adjustments related to foreign currency transactions that affect cash flows.

The currency translation adjustment included in shareholders' equity consists of the following components.

(millions)	1990	1989
Balance, January 1,	\$(38.0)	\$ 2.1
Exchange adjustments	72.8	(40.4)
Income tax effect of the adjustments	2.1	.3
Balance, December 31,	\$ 36.9	\$(38.0)

Note 5 Debt

Notes payable consists of borrowings in the United States of \$232.0 million at 8.3 percent in 1990, \$277.2 million at 9.2 percent in 1989, and bank loans of foreign subsidiaries at competitive market rates.

The 1989 current maturities of long-term debt includes the \$100.0 million 11¼ percent Eurodollar notes (originally due in 1992) that were redeemed in January 1990. In March 1989, the Company issued the \$200.0 million 9½ percent Eurodollar notes.

Information on long-term debt follows.

(millions)	1990	1989
9½% Eurodollar Notes due 1992	\$201.1	\$202.0
9½% Eurodollar Notes due 1991	100.3	100.6
11¼% Eurodollar Notes due 1992		100.0
9% Canadian Dollar Notes due 1992	43.1	43.2
Other	53.4	27.7
	397.9	473.5
Less current maturities	102.3	102.1
Balance, December 31,	\$295.6	\$371.4

Principal payments are due as follows (in millions): 1992 – \$259; 1993 – \$1; 1994 – \$1; 1995 – \$14.

Interest paid, net of amounts capitalized, approximated interest expense in each of the three years ended December 31, 1990.

The Company uses certain off-balance-sheet financial instruments to help manage its interest and currency rate risks. The amount of these instruments was not material to the Company's financial statements.

The Company has credit agreements providing for borrowing an aggregate of approximately \$519 million on an unsecured basis, \$443 million of which is unused at December 31, 1990. In 1988, the Company filed a "shelf registration" of \$290 million of debt securities with the Securities and Exchange Commission. Under this registration statement, the Company issued \$100 million of 10.3 percent short-term notes in March 1989 that matured in March 1990.

Note 6 Common stock and other capital

In 1990, the Company purchased 1,383,100 shares of its common stock at an average cost of \$63; in 1989, purchased 1,232,100 shares at an average cost of \$64; and in 1988, purchased 621,400 shares at an average cost of \$54. All purchases are included in treasury stock. A summary of capital stock transactions follows.

(millions)	Common stock	Capital in excess of par value	Treasury stock
Balance, January 1, 1988	\$38.5	\$58.1	\$598.2
Stock options exercised		5.2	
Treasury stock purchased			33.6
Balance, December 31, 1988	38.5	63.3	631.8
Stock options exercised	.1	9.5	
Treasury stock purchased			78.6
Balance, December 31, 1989	38.6	72.8	710.4
Stock options exercised		8.4	
Treasury stock purchased			86.9
Balance, December 31, 1990	\$38.6	\$81.2	\$797.3

Under the Company's stock option plan, options may be granted at not less than the fair market value of the Company's common stock at the time of grant. Such options are exercisable when granted and expire ten years from date of grant.

In 1990, the stock option plan was amended to include a reload feature. When Company stock is surrendered to pay for an exercised stock option, the holder of the option is granted a new option for the number of shares surrendered. For all options reloaded, the expiration date is not changed, but the option price becomes the fair market value of the Company's stock on the date the new option is granted.

Options for 489,300 and 789,700 shares were available for grant at December 31, 1990, and January 1, 1990, respectively. A summary of transactions under the plan follows.

		Average price
Under option, January 1, 1989	882,675	\$48.03
Granted	5,000	73.00
Exercised	184,195	45.78
Cancelled	2,650	61.50
Under option, January 1, 1990	700,830	49.33
Granted	308,500	60.50
Exercised	168,451	43.97
Cancelled	8,100	30.94
Under option, December 31, 1990	832,779	\$53.64

Note 7 Retirement plans

The Company has several pension plans to provide retirement benefits for substantially all employees. Benefits for salaried employees are generally based on salary and years of service, while union employee benefits are generally a negotiated amount for each year of service. Plan funding strategies are influenced by tax regulations. Plan assets consist primarily of equity securities with smaller holdings of bonds, fixed income securities, real estate, and other investments.

Pension expense includes the following components.

(millions)	1990	1989	1988
Service cost	\$ 21.4	\$ 18.5	\$ 17.8
Interest cost	46.9	41.4	38.2
Actual loss (return) on plan assets	26.8	(87.0)	(50.8)
Net amortization and deferral	(71.6)	49.2	14.9
Pension expense Company plans	23.5	22.1	20.1
Pension expense multiemployer plans	1.7	1.6	1.6
Total pension expense	\$ 25.2	\$ 23.7	\$ 21.7

The reconciliation of the funded status of the plans at year end follows.

(millions)	Underfunded 1990	1989	Overfunded 1990	1989
Accumulated benefit obligation:				
Nonvested	\$ 7.8	\$ 7.5	\$ 4.0	\$ 3.8
Vested	227.0	191.0	258.0	212.9
Total	234.8	198.5	262.0	216.7
Projected salary increases	12.1	11.8	81.9	76.7
Projected benefit obligation	246.9	210.3	343.9	293.4
Plan assets at fair value	138.2	144.6	345.0	352.2
Assets greater (less) than projected benefit obligation	(108.7)	(65.7)	1.1	58.8
Unrecognized net (gain) loss	5.6	(8.2)	20.2	(31.5)
Unrecognized transition amount	27.5	26.5	(29.8)	(30.1)
Unrecognized prior service cost	36.4	22.5	24.3	19.2
Prepaid (accrued) pension	\$ (39.2)	\$ (24.9)	\$ 15.8	\$ 16.4

All gains and losses are recognized over the average remaining service period of active employees.

The projected benefit obligation increased in 1990 primarily because of plan improvements made during the year that covered most U.S. employees.

At December 31, 1990, intangible assets and other liabilities include \$58.3 million, reflecting underfunded pension plans primarily in the United States, compared to \$29.0 million at December 31, 1989. The increase in 1990 occurred because of the plan improvements and losses on plan assets.

The weighted averages for all plans of the actuarially assumed discount rate, long-term rate of compensation increase, and long-term rate of return on plan assets were 9.2, 6.7, and 9.7 percent in 1990; 9.1, 6.6, and 9.7 percent for 1989; and 9.1, 6.7, and 9.7 percent for 1988, respectively.

The Company and certain of its subsidiaries provide health care and life insurance for some retirees and sponsor 401K plans for some active employees. The costs, expensed principally as incurred, are not material.

In December 1990, the Financial Accounting Standards Board issued FAS 106 – "Employers' Accounting For Post-retirement Benefits Other Than Pensions." FAS 106 must be implemented by 1993. This new accounting standard requires the estimated cost of other postemployment benefits (principally health and life insurance for all U.S. employees of the Company) be accrued over the period earned rather than being expensed as incurred. Management is in the process of determining the impact of this complex new accounting standard and how it will be implemented.

Note 8 Income taxes

On January 1, 1989, the Company adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." This standard requires the deferred tax liability to be computed using tax rates in effect when the taxes will be paid. Under these rules income tax expense will increase or decrease in the same period in which tax laws are enacted to reflect the restatement of the deferred tax liability. The Company elected to report the cumulative effect of the change to the new tax accounting rules, amounting to \$48.1 million, in 1989 net earnings. The change from the deferred method to the liability method of accounting for income taxes did not have a significant impact on 1989 income tax expense.

Income taxes are provided on the basis of earnings reported in the financial statements. To the extent that certain transactions are reported in different periods for tax purposes, a portion of the provision for taxes is classified as deferred. Accelerated depreciation, coupons, and other temporary differences result in deferred taxes. The components of pretax earnings and of income tax expense follow.

(millions)	1990	1989	1988
Earnings before income taxes and cumulative effect of accounting change:			
United States	\$511.6	\$460.1	\$564.4
Foreign	303.1	206.9	210.3
	\$814.7	\$667.0	\$774.7
Income Taxes:			
Currently payable:			
Federal	\$152.1	\$163.2	\$181.6
State	19.5	18.6	20.4
Foreign	122.1	57.2	60.7
	293.7	239.0	262.7
Deferred:			
Federal	6.2	(17.4)	15.2
State	.3	(1.4)	(.3)
Foreign	11.7	24.7	16.7
	18.2	5.9	31.6
Total income taxes	\$311.9	\$244.9	\$294.3

Following is a reconciliation of the U.S. statutory income tax rate to the Company's effective income tax rate.

	1990	1989	1988
U.S. statutory rate	34.0%	34.0%	34.0%
Foreign rates varying from 34%	2.7	.9	.4
State income taxes, net of federal benefit	1.6	1.7	1.7
Nondeductible goodwill		.3	.8
Other		(.2)	1.1
Effective income tax rate	38.3%	36.7%	38.0%

Cash paid for income taxes was as follows (in millions): 1990 – \$234; 1989 – \$278; 1988 – \$287.

At December 31, 1990, \$802 million of foreign subsidiary earnings is considered permanently invested in those businesses. Accordingly, U.S. income taxes have not been provided for such earnings. If all of these earnings were remitted, foreign withholding taxes would amount to \$49 million.

Note 9 Operating segments

The Company operates in a single industry – manufacturing and marketing convenience food products throughout the world.

Credit risk exposure for all financial instruments follows the pattern of the Company's geographic and industry operating segments.

Information presented on page 16 describes operations by geographic area. Included are schedules of net sales and net earnings for the years 1990, 1989, and 1988, and the related year-end identifiable assets, including corporate assets that are comprised principally of cash and temporary investments.

Report of Independent Accountants

Price Waterhouse

To the Shareholders and Board of Directors of Kellogg Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings and retained earnings and of cash flows present fairly, in all material respects, the financial position of Kellogg Company and its subsidiaries at December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 8 to the financial statements, the Company changed its method of accounting for income taxes in 1989.

Price Waterhouse

Battle Creek, Michigan
February 8, 1991

Kellogg Operations and Facilities

Worldwide Operations

Argentina

Kellogg's® cereals, snacks

Australia

Kellogg's® cereals, breeding products

Brazil

Kellogg's® baby food cereals, cereals, breeding products

Canada

Kellogg's® cereals, toaster pastries

Eggo® waffles

Farm House® pies

Mrs. Smith's® pies

Shirriff® pie fillings, potatoes, puddings

Colombia

Kellogg's® cereals, breeding products

Denmark

Kellogg's® cereals

Foska® peas, rolled oats

Mollerens® macaroni, peas, soups

France

Kellogg's® cereals

Germany

Kellogg's® cereals, cereal bars, breeding products

Great Britain

Kellogg's® cereals

Askeys® cones, syrups, wafers

Guatemala

Kellogg's® cereals, breeding products

Italy

Kellogg's® cereals, breeding products

Japan

Kellogg's® cereals

Mexico

Kellogg's® cereals, breeding products

South Africa

Kellogg's® cereals, breeding products

South Korea

Kellogg's® cereals

Spain

Kellogg's® cereals

United States

Kellogg's® cereals, cereal bars, croutons, toaster pastries, bread-ing and stuffing products

Eggo® dressings, mayonnaise, mixes, sauces, syrups, pancakes, waffles

Gourmet Edge® food bases

LeGout® desserts, drink mixes, entrees, gravies, juice bases, pudding and pie fillings, sauces, soup bases, soups

LeGout/NOW® soups, sauces, gravies, entrees

Mrs. Smith's® pies

Venezuela

Kellogg's® cereals, breeding products, flans, puddings, gelatins

Manufacturing Locations

U.S. Food Products Division

Battle Creek, Michigan
San Leandro, California
Omaha, Nebraska
Lancaster, Pennsylvania
Muncy, Pennsylvania
Memphis, Tennessee

U.S. Subsidiaries

Fearn International Inc.
Franklin Park, Illinois
Milpitas, California
Mrs. Smith's Frozen Foods Co.
Pottstown, Pennsylvania
San Jose, California
Atlanta, Georgia
Blue Anchor, New Jersey
Morgantown, Pennsylvania
Rossville, Tennessee

Kellogg International

Buenos Aires, Argentina
Sydney, Australia
Sao Paulo, Brazil
London, Ontario, Canada
Rexdale, Ontario, Canada
Bogota, Colombia
Svendborg, Denmark
Bremen, Germany
Aylesbury, Great Britain
Manchester, Great Britain
Wrexham, Great Britain
Guatemala City, Guatemala
Takasaki, Japan
Queretaro, Mexico
Springs, South Africa
Anseong, South Korea
Valls, Spain
Maracay, Venezuela

Corporate Directory

Directors

Charles M. Bliss

*Chairman of the Board and
Chief Executive Officer, Retired
Harris Trust and Savings Bank
Chicago, Illinois*

Philip Caldwell

*Senior Managing Director
Shearson Lehman Brothers Inc.
New York, New York
Chairman and
Chief Executive Officer, Retired
Ford Motor Company*

Theodore Cooper

*Chairman of the Board
Chief Executive Officer
The Upjohn Company
Kalamazoo, Michigan*

Charles W. Elliott

*Executive Vice President
Administration
Chief Financial Officer
Kellogg Company*

Claudio X. Gonzalez

*Chairman of the Board
Chief Executive Officer
Kimberly-Clark de Mexico,
S.A. de C.V.
Mexico City, Mexico*

Gordon Gund

*President and
Chief Executive Officer
Gund Investment Corporation
Princeton, New Jersey*

William E. LaMothe

*Chairman of the Board
Chief Executive Officer
Kellogg Company*

Arnold G. Langbo

*President
Chief Operating Officer
Kellogg Company*

Russell G. Mawby

*Chairman of the Board and
Chief Executive Officer
W.K. Kellogg Foundation
Battle Creek, Michigan*

Ann McLaughlin

*Visiting Fellow
The Urban Institute
Washington, D.C.*

J. Richard Munro

*Chairman of the
Executive Committee
Time Warner Inc.
New York, New York*

Donald Rumsfeld

*Chairman and Chief Executive Officer
General Instrument Corporation
New York, New York*

Timothy P. Smucker

*Chairman
The J.M. Smucker Company
Orrville, Ohio*

Dolores D. Wharton

*President
The Fund for Corporate
Initiatives, Inc.
New York, New York*

Committees

Executive Committee

*William E. LaMothe (Chairman)
Charles M. Bliss
Theodore Cooper
Gordon Gund
Russell G. Mawby*

Audit Committee

*Gordon Gund (Chairman)
Claudio X. Gonzalez
Ann McLaughlin
J. Richard Munro
Timothy P. Smucker*

Committee on Social Responsibility

*Charles M. Bliss (Chairman)
Philip Caldwell
Charles W. Elliott
Arnold G. Langbo
Russell G. Mawby
Ann McLaughlin
Dolores D. Wharton*

Compensation Committee

*Russell G. Mawby (Chairman)
Theodore Cooper
J. Richard Munro
Donald Rumsfeld
Dolores D. Wharton*

Employee Benefits Advisory Committee

*Dolores D. Wharton (Chairman)
Charles W. Elliott
Claudio X. Gonzalez
Gordon Gund
J. Richard Munro
Timothy P. Smucker*

Finance Committee

*Donald Rumsfeld (Chairman)
Charles M. Bliss
Philip Caldwell
Charles W. Elliott
Claudio X. Gonzalez
Arnold G. Langbo
Timothy P. Smucker*

Nominating Committee

*Philip Caldwell (Chairman)
Theodore Cooper
William E. LaMothe
Ann McLaughlin
Donald Rumsfeld*

Corporate Officers

William E. LaMothe

*Chairman of the Board
Chief Executive Officer*

Arnold G. Langbo

*President
Chief Operating Officer*

Charles W. Elliott

*Executive Vice President
Administration
Chief Financial Officer*

Gary E. Costley

Executive Vice President

Donald W. Thomason

*Executive Vice President
Corporate Services and
Technology*

Richard M. Clark

*Senior Vice President
General Counsel and Secretary*

John R. Hinton

*Senior Vice President – Finance
Treasurer*

Daryl R. Schaller

*Senior Vice President
Research, Quality, and Nutrition*

Joseph M. Stewart

*Senior Vice President
Corporate Affairs*

Holger U. Birkigt

Vice President

Fred C. Buhler

*Vice President
Assistant to the Chairman*

William A. Camstra

Vice President

Celeste A. Clark

*Vice President
Nutrition Marketing and
Communications*

Robert L. Creviston

*Vice President
Employee Relations*

John J. Feeney

Vice President

George A. Franklin

Vice President – Public Affairs

Donald G. Fritz

Vice President

Victor L. Fulgoni, III

*Vice President
Research and Nutrition*

Carlos M. Gutierrez

Vice President

Paul A. Humiston, Jr.

*Vice President – International
Manufacturing and Technology*

Thomas A. Knowlton

Vice President

Richard J. Lilly

Vice President – Travel Services

Jeanene M. Mallmann

*Vice President
President
McCamly Square Division*

Gary A. Reimer

Vice President – Taxes

W. Lawrence Romans

Vice President – Internal Auditing

Stanley W. Ruis

*Vice President
Corporate Controller*

Ian D. Sale

*Vice President
Financial Planning and Analysis*

Jay W. Shreiner

*Vice President
Corporate Information Technology*

Michael J. Teale

Vice President

U.S. Food Products Division

Gary E. Costley

President

J. Robert Aubuchon

Executive Vice President

Carlos M. Gutierrez

*Executive Vice President
Sales and Marketing*

Michael J. Teale

*Executive Vice President
Operations*

U.S. Subsidiaries

John J. Feeney

*Chairman of the Board
Chief Executive Officer
Mrs. Smith's Frozen Foods Co.*

William A. Morgan

*President
Kellogg Foodservice Division*

Donald M. Poole

*President
Fearn International Inc.*

Kellogg International

Arnold G. Langbo

President

Holger U. Birkigt

*Director, Continental
European Operations*

Thomas A. Knowlton

*Chairman and Managing Director
Kellogg Company of
Great Britain, Ltd.*

Bernd Wilhelm

*Managing Director
Kellogg (Deutschland) GmbH*

Jean-Louis Gourbin

*President
Chief Executive Officer
Kellogg Canada Inc.*

William A. Camstra

*Director of
Latin American Operations*

Rafael Obregon

*Managing Director
Kellogg de Mexico, S.A. de C.V.*

Donald G. Fritz

*Director
Australasia*

M. John Cook

*Managing Director
Kellogg (Australia) Pty. Ltd.*

W. Murray Rogers

*Director
Asian Operations*

Kellogg Company

One Kellogg Square
P.O. Box 3599
Battle Creek, MI 49016-3599
(616) 961-2000

Independent Accountants:

Price Waterhouse

Transfer Agent, Registrar, and Dividend Disbursing Agent:

Harris Trust and Savings Bank
Corporate Trust Operations
P.O. Box 755
311 West Monroe Street
Chicago, IL 60690
(800) 323-6138

Fiscal Agent:

9½% Eurodollar Notes due 9/20/91
9% Canadian Dollar Guaranteed Notes due 1/16/92
9½% Eurodollar Notes due 3/6/92
Citibank, N.A.
111 Wall Street
New York, NY 10043

Dividend Reinvestment and Stock Purchase Plan:

This plan, available to shareholders, provides a means of regular dividend reinvestment, including a voluntary cash payment option for the purchase of additional stock. For details, contact:
Harris Trust and Savings Bank
Dividend Reinvestment Service
P.O. Box A3309
Chicago, IL 60690
(800) 323-6138

Kellogg Better Government Committee:

This committee is organized to permit Company shareholders, executives, administrative personnel, and their families to pool their contributions in support of candidates for elected offices at the federal level who believe in sound economic policy and real growth, and who will fight inflation and unemployment, try to decrease taxes, and reduce the growth of government. Interested shareholders are invited to write for further information:
Kellogg Better Government Committee
ATTN: Joseph M. Stewart
One Kellogg Square
P.O. Box 3599
Battle Creek, MI 49016-3599

Duplicate Mailings:

When shares owned by one shareholder are held in different forms of the same name (Jane R. Doe, J.R. Doe, and J. Rose Doe), duplicate mailing of shareholder information results. The Company mails to each name on the shareholder list unless the shareholder requests that duplicate mailings be eliminated. If you currently receive duplicate reports, you can help eliminate the added expense by requesting that only one copy be sent. Send the labels or label information to our transfer agent, Harris Trust and Savings Bank, indicating which name you wish to keep on the list and which names should be deleted. This change will not affect dividend or proxy mailings.

Company Information:

The 10-K report, cassette tape recordings of this report for visually impaired shareholders, and other corporate and product information are available upon request from:

Kellogg Company
Consumer Affairs Department
P.O. Box CAMB
Battle Creek, MI 49016-1986

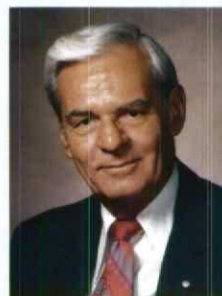
Common stock listed on the New York Stock Exchange, Ticker Symbol-K

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G.D. Robinson
1923-1991

G.D. "Gerry" Robinson, former president and chief operating officer of Kellogg Company, died February 18, 1991 in London, Ontario, Canada. Gerry contributed greatly to the Company's worldwide growth during his 37 years of distinguished service. He was admired and respected at Kellogg Company and throughout the food industry for his skillful leadership and uncompromising integrity.

Kellogg's

**Dedicated People
Providing Quality Products
for a Healthier World**

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Kellogg's

Kellogg Company

Battle Creek, Michigan 49016-3599

Telephone (616) 961-2000

